
ARMOUR RE LTD.

FINANCIAL STATEMENTS

For the Years Ended December 31, 2022 and 2021

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June 30, 2023

Report of Independent Auditors

To the Board of Directors and Shareholder of Armour Re Ltd.

Opinion

We have audited the accompanying financial statements of Armour Re Ltd. (the “Company”), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income (loss) and comprehensive income (loss), of changes in shareholder’s equity and of cash flows for the years then ended, including the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the *Auditors’ responsibilities for the audit of the financial statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors’ responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.



In performing an audit in accordance with US GAAS, we:

- Exercise professional judgement and maintain professional scepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required supplemental information

Accounting principles generally accepted in the United States of America require that the required supplemental information pertaining to Short-Duration Contracts disclosures labelled as "Unaudited" within Note 8 on pages 24 to 26 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink that reads "PricewaterhouseCoopers Ltd." in a cursive script.

Chartered Professional Accountants

ARMOUR RE LTD.

BALANCE SHEETS

As at December 31, 2022 and 2021

(Expressed in thousands of U.S. dollars, except share data)

	December 31, 2022	December 31, 2021
ASSETS		
Short-term investments, trading, at fair value.....	\$ 26,462	\$ 22,824
Fixed maturity investments, trading, at fair value.....	20,602	38,788
Total investments.....	47,064	61,612
Cash and cash equivalents.....	6,464	6,166
Restricted cash and cash equivalents.....	139	310
Premiums receivable.....	381	290
Funds withheld.....	75,002	86,463
Reinsurance balances recoverable.....	41,070	49,537
Due from shareholder.....	12,953	12,944
Due from cedants.....	9,687	14,051
Accrued investment income.....	56	179
Other assets.....	143	478
TOTAL ASSETS	\$ 192,959	\$ 232,030
LIABILITIES		
Reserve for losses and loss adjustment expenses.....	\$ 114,169	\$ 135,913
Unearned premiums.....	13	11
Due to cedants.....	5,090	6,663
Funds withheld payable.....	48,231	58,645
Deferred gain.....	-	422
Other liabilities.....	2,037	1,755
TOTAL LIABILITIES	169,540	203,409
SHAREHOLDER'S EQUITY		
Share capital		
Ordinary shares (\$1.00 par; 10,000,000 shares authorized, 120,000 shares issued and outstanding).....	120	120
Additional paid-in capital.....	127,792	127,792
Retained earnings (deficit).....	(104,493)	(99,291)
TOTAL SHAREHOLDER'S EQUITY	23,419	28,621
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 192,959	\$ 232,030

See accompanying notes to the financial statements

ARMOUR RE LTD.

STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

For the Years Ended December 31, 2022 and 2021

(Expressed in thousands of U.S. dollars)

	<u>2022</u>	<u>2021</u>
INCOME		
Net premiums earned.....	\$ (636)	\$ (212)
Net investment income.....	1,077	413
Net realized and change in net unrealized gains/losses.....	(1,083)	(470)
Other income.....	-	230
TOTAL INCOME.....	(642)	(39)
EXPENSES		
Net losses and loss adjustment expenses.....	3,975	21,005
Other reinsurance expenses.....	58	(382)
General and administrative expenses.....	826	1,061
Net foreign exchange gains/losses.....	(299)	226
TOTAL EXPENSES.....	4,560	21,910
NET INCOME (LOSS) AND COMPREHENSIVE INCOME.....	\$ (5,202)	\$ (21,949)

See accompanying notes to the financial statements

ARMOUR RE LTD.

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

For the Years Ended December 31, 2022 and 2021

(Expressed in thousands of U.S. dollars)

	<u>2022</u>	<u>2021</u>
Share capital — ordinary shares		
Balance, beginning of year	\$ 120	\$ 120
Issuance of shares	<u>—</u>	<u>—</u>
Balance, end of year	<u>\$ 120</u>	<u>\$ 120</u>
Additional paid-in capital		
Balance, beginning of year	\$ 127,792	\$ 127,792
Contribution from shareholder	<u>—</u>	<u>—</u>
Balance, end of year	<u>\$ 127,792</u>	<u>\$ 127,792</u>
Retained earnings (deficit)		
Balance, beginning of year	\$ (99,291)	\$ (77,342)
Net income (loss)	<u>(5,202)</u>	<u>(21,949)</u>
Balance, end of year	<u>\$ (104,493)</u>	<u>\$ (99,291)</u>
TOTAL SHAREHOLDER'S EQUITY	<u>\$ 23,419</u>	<u>\$ 28,621</u>

See accompanying notes to the financial statements

ARMOUR RE LTD.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2022 and 2021

(Expressed in thousands of U.S. dollars)

	<u>2022</u>	<u>2021</u>
OPERATING ACTIVITIES:		
Net income (loss)	\$ (5,202)	\$ (21,949)
Adjustments to reconcile net income (loss) to cash flows used in operating activities:		
Net realized and change in net unrealized losses	1,675	1,418
Accretion of discount	(1,096)	693
Changes in:		
Premiums receivable	(91)	(276)
Funds withheld	11,439	14,358
Due from cedant	4,363	3,494
Reinsurance balances recoverable	8,467	(2,325)
Other assets	337	603
Reserve for losses and loss adjustment expenses	(21,745)	2,896
Unearned premiums	1	(5)
Accrued Interest	123	27
Funds withheld payable	(9,573)	(20,223)
Due to cedant	(1,573)	(1,086)
Due to shareholder	(9)	35
Deferred gain	(422)	(262)
Other liabilities	282	(95)
Net cash flows (used in) provided by operating activities	<u>(13,024)</u>	<u>(22,697)</u>
INVESTING ACTIVITIES:		
Proceeds on sales of fixed maturity investments	\$ 2,576	\$ 10,881
Proceeds on sales of short-term investments	9,571	15,222
Proceeds on maturities of fixed maturity investments	13,509	8,242
Proceeds on maturities of short-term investments	64,992	21,447
Purchases of fixed maturity investments	—	(3,811)
Purchases of short-term investments	(77,497)	(38,202)
Net cash flows provided by (used in) investing activities	<u>13,151</u>	<u>13,779</u>
FINANCING ACTIVITIES:		
Issuance of shares	—	—
Return of capital to shareholder	—	—
Reduction of paid-in capital	—	—
Net cash flows to/from financing activities	<u>—</u>	<u>—</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS	127	(8,918)
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,476	15,394
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 6,603</u>	<u>\$ 6,476</u>
SUPPLEMENTAL INFORMATION:		
Income taxes paid	\$ —	\$ —
Interest paid	\$ —	\$ —

See accompanying notes to the financial statements

ARMOUR RE LTD.

NOTES TO THE FINANCIAL STATEMENTS

(Tabular information expressed in thousands of U.S. dollars)

1. DESCRIPTION OF BUSINESS

Armour Re Ltd. ("Armour Re" or the "Company") is a Bermuda exempted company registered as a Class 3B insurer under the Bermuda Insurance Act 1978. The Company was incorporated on November 20, 2017 and is wholly-owned by Armour Group Ltd. ("AGL").

The primary purpose of the Company is to acquire discontinued property and casualty business in the non-life sector of the insurance industry from insurers, reinsurers and/or other entities (including, without limitation, self-insured organizations) and the management of the payment of future claims and the assets supporting such liabilities. Unless the context indicates otherwise, the terms the "Company," "Armour Re," "we," "us" or "our" mean Armour Re Ltd.

Co-Investment Framework Agreement

On December 29, 2017, the Company, together with its affiliates, parallel vehicles, co-investment vehicles, alternative vehicles, subsidiaries and other related investment vehicles (collectively the "PCV Vehicle"), and ILS Property & Casualty Fund II, L.P. ("Fund II") entered into a Co-Investment Framework Agreement, which was amended and restated on December 5, 2018, whereby the PCV Vehicle agreed that a pro rata portion, based on Fund II's total capital commitments and the PCV Vehicle's aggregate equity capital, determined as of the time of the proposed investment (the "Co-Investment Ratio") will be offered to Fund II and Fund II shall be entitled to invest in such opportunity in any amount up to the applicable Co-Investment Ratio or to decline such investment.

Both parties also agreed that subsequent changes to the Co-Investment Ratio, due to the subsequent closing of the commitment period of Fund II or a change in the equity capital of the PCV run-off pool, to re-allocate their respective interest in the Co-Investment based on the Revised Co-Investment Ratio (the "Re-Allocation").

Initial Co-Investments were made based on the Co-Investment Ratio at the time of the Co-Investment with subsequent capital Re-Allocations occurring four times in 2018. On November 30, 2018, the commitment period of Fund II closed resulting in the Co-Investment Ratio being permanently set on that date.

For those Co-Investments that were Re-Allocated between the PCV Vehicle and Fund II, the percentage share of the Co-Investments transferred was made at cost plus interest at a rate equal to 8% per annum from the date such Co-Investment was made to the date of such transfer.

The Co-investment Ratios for the PCV Vehicle and Fund II were 32.65% and 67.35%, respectively as at December 31, 2022 and 2021.

For the PCV Vehicle and Fund II, the Co-Investments are primarily undertaken through their Bermuda registered Class 3B insurers being Armour Re and ILS Property & Casualty Re II Limited ("PC Re II"), respectively.

In 2019, the PCV and Fund II suspended underwriting and conducted a review of operations in view of poor performance. In February 2021, the parent of The Company entered into an agreement with Premia Holdings for sale of Armour Re and the novation of the service contracts supporting the Company's insurance portfolios to Premia, which is still underway. There were no significant developments in 2022.

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The financial statements include our assets, liabilities and results of operations as at December 31, 2022 and 2021 and for the years then ended.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our actual results could differ materially from our estimates. Accounting policies that we believe are most dependent on assumptions and estimates are considered to be our critical accounting policies and are related to the determination of:

- reserves for losses and loss adjustment expenses ("LAE");
- reinsurance balances recoverable; and
- fair value measurements of investments and funds withheld - directly managed.

Significant Accounting Policies

(a) Premiums

Premiums written are earned on a pro-rata basis over the period the coverage is provided. Premiums are recorded at the inception of the policy, are based upon contractual terms and, for certain business, are estimated based on underlying contracts or from information provided by insureds and/or brokers. Changes in premium estimates are expected and may result in adjustments in future periods. Any subsequent differences arising on such estimates are recorded as premiums written in the period in which they are determined.

Premiums receivable

Premiums receivable represent amounts currently due and amounts not yet due on reinsurance policies. Premiums for reinsurance policies generally become due over the period of coverage based on the policy terms. We monitor the credit risk associated with premiums receivable, taking into consideration the impact of our contractual right to offset loss obligations or unearned premiums against premiums receivable. Amounts deemed uncollectible are expensed in the period they are determined. Changes in the estimates of premiums written will result in an adjustment to premiums receivable in the period they are determined.

Unearned premiums

Unearned premiums represent the portion of premiums written that relate to the unexpired terms of policies in force.

(b) Losses and LAE

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

The reserve for losses and LAE includes an amount determined from reported claims ("OSLR") and an amount, based on historical loss experience and industry statistics, for losses incurred but not yet reported ("IBNYR") and losses incurred but not enough reported ("IBNER"). IBNYR plus IBNER are commonly referred to collectively as IBNR. The ultimate claims reserves (OSLR plus IBNR) is established by management based on actuarial analysis of data provided by brokers, ceding companies and insureds and represents the estimated ultimate net outstanding claims liabilities. These estimates are continually reviewed and are necessarily subject to the impact of future changes in factors such as claim severity and frequency, changes in economic conditions including the impact of inflation, legal and judicial developments, and medical cost trends. While we believe that the amount is adequate, the ultimate liability may be in excess of, or less than, the amounts provided. Adjustments will be reflected as part of net increase or reduction in losses and LAE liabilities in the periods in which they become known. Premium and commission adjustments may be triggered by incurred losses, and any amounts are recorded in the same period that the related incurred loss is recognized.

We establish provisions for LAE relating to run-off costs for the estimated duration of the run-off, which are included in losses and LAE. These provisions are assessed at each reporting date and provisions relating to future periods are adjusted to reflect any changes in estimates of the periodic run-off costs or the duration of the run-off, including the impact of any acceleration of the run-off period that may be caused by commutations.

(c) Reinsurance Recoverable

Amounts billed to and due from reinsurers resulting from paid movements in the underlying business are calculated in accordance with the terms of the individual reinsurance contracts. Similarly, reinsurance balances recoverable related to our case reserves are calculated by applying the terms of any applicable reinsurance coverage to movements in the underlying case reserves. Our estimate of reinsurance balances recoverable related to IBNR reserves is recognized on a basis consistent with the underlying IBNR reserves.

(d) Investments, Cash and Cash Equivalents

Short-term investments and fixed maturity investments

Short-term investments comprise investments with a maturity greater than three months up to one year from the date of purchase. Fixed maturities comprise investments with a maturity of greater than one year from the date of purchase.

Short-term and fixed maturity investments classified as trading are carried at fair value, with realized and unrealized holding gains and losses included in the Statement of Income (Loss) and Comprehensive Income (Loss) and reported as net realized and change in net unrealized gains and losses.

Investment purchases and sales are recorded on a trade-date basis. Realized gains and losses on the sale of investments are based upon specific identification of the cost of investments. Interest on securities is recorded in net investment income when earned and includes amortization of premium or accretion of discount.

Cash and cash equivalents

Cash equivalents include all highly liquid debt instruments purchased with an original maturity of three months or less.

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Restricted cash and cash equivalents

Restricted cash and cash equivalents are held in trust accounts securing obligations for third party agreements.

(e) Funds Withheld

Under funds withheld arrangements the reinsured company has retained funds that would otherwise have been remitted to us. The funds withheld balance is credited with investment income and losses payable are deducted. The investment returns of funds withheld are recognized in net investment income. Funds withheld upon which we receive the underlying portfolio economics are disclosed in the notes to the financial statements as funds withheld - directly managed.

(e) Foreign Exchange

The Company's functional currency is the U.S. dollar. Monetary assets and liabilities denominated in a currency other than the functional currency of the Company are remeasured into the functional currency at the prevailing exchange rate on the balance sheet date. Revenues and expenses denominated in a currency other than the functional currency of the Company are remeasured at exchange rates in effect at the time of the underlying transaction. The net effect of these remeasurements is recognized in the Company's Statement of Income (Loss) and Comprehensive Income (Loss) as part of net foreign exchange gains and losses.

(f) Retroactive Reinsurance and Deferred Charges

Retroactive reinsurance policies provide indemnification of losses and LAE with respect to past loss events.

We use the balance sheet accounting approach for assumed loss portfolio transfers, whereby at the inception of the contract there are no premiums or losses recorded in the Statement of Income (Loss) and Comprehensive Income (Loss). At the inception of a contract, a deferred charge asset is recorded for the excess, if any, of the estimated ultimate losses payable over the premiums received. Deferred charges are amortized over the estimated claim payment period of the related contract with the periodic amortization reflected in the Statement of Income (Loss) and Comprehensive Income (Loss) as a component of losses and LAE. The deferred charge amortization is adjusted at each reporting period to reflect new estimates of the amount and timing of remaining loss payments. Changes in the estimated amount and the timing of payments of unpaid losses may have an effect on the unamortized deferred charges and the amount of periodic amortization. Deferred charges are assessed at each reporting period for impairment. If the asset is determined to be impaired, it is written down in the period in which the determination is made.

Recently Issued Accounting Pronouncements Not Yet Adopted

Financial Instruments - Credit Losses (Topic 326)

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326)", which would change how entities account for credit losses for most financial assets, trade receivables and reinsurance receivables. This standard would replace the existing incurred loss impairment model with a new "current expected credit loss model" that generally would result in earlier recognition of credit losses. This standard will apply to financial assets subject to credit losses, including loans measured at amortized cost, reinsurance receivables and certain off-balance

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

sheet credit exposures. Between 2018 and 2022 the FASB issued a number of amendments and targeted improvements to ease with the application of this standard. These updates are effective in line with the effective date of ASU No. 2016-13.

This standard is effective for non-public entities for fiscal years beginning after December 15, 2022. The Company is currently evaluating the impact of this guidance; however, it is not expected to have a material impact on the Company's financial statements.

3. SIGNIFICANT BUSINESS

Portfolio 1

On December 29, 2017, we entered into a quota share retrocession agreement ("QS Agreement") with PC Re II in relation to the loss portfolio transfer agreement ("LPTA") it entered to reinsure a portfolio of legacy business which primarily includes Commercial Automobile, Non-Standard Personal Automobile, General Liability, Commercial and Personal Property, Mono-line Liquor Liability, Real Estate E&O, Workers' Compensation and other smaller lines of business. Taking into account the impact of the change in the Co-Investment Ratio, we contributed \$89.6 million to PC Re II representing our proportionate share of the required collateral to fully fund the trade up to its aggregate limit; assumed \$155.2 million of reserves for losses and LAE; and was credited with \$143.2 million of premiums due under the LPTA to funds withheld.

On January 2, 2019 the Portfolio 1 QS Agreement was amended and restated in relation to the excess of loss agreement ("XOL Contract") PC Re II entered into with White Rock Insurance (SAC) Ltd., acting solely in respect of its segregated account "T56", ("White Rock"), an affiliate. The terms of the amended and restated QS Agreement provide coverage to the Company for its quota share percentage of the aggregate limit in excess of its retention on the underlying QS Agreement related to Portfolio 1. As collateral is released from the underlying Portfolio 1 collateral trust accounts, it will be paid to White Rock, in accordance with the contractually agreed payment waterfall, and will be applied to reduce the aggregate limit under the XOL contract. In December 2019, \$29.7m was repaid and in January 2020 \$0.3m was repaid. During 2022 and 2021 there were no repayments.

Portfolio 2

On March 5, 2018, we entered into a QS Agreement with PC Re II in relation to the LPTA it entered to reinsure a portfolio of U.K. commercial motor, public and employers' liability lines of business along with property/premises related to U.K. commercial motor. Pursuant to the agreement, we have indemnified PC Re II for our quota share percentage of the ultimate net loss and other liabilities incurred by PC Re II under the LPTA. The Company has provided capital of \$9.2 million to fund its quota share percentage of the aggregate limit under the terms of the LPTA and assumed \$14.2 million of reserves for losses and LAE.

Portfolio 3

On January 31, 2019, we entered into a LPTA to reinsure a portfolio of US general liability, commercial package including and excluding US wind cover and miscellaneous professional and liquor liability. Concurrently, we entered into a QS Agreement with PC Re II in relation to the LPTA whereby PC Re II funded \$82.9 million, and we funded \$40.2 million, representing the total capital required to fund the reinsurance up to the aggregate limit for claims under the terms of the LPTA along with funding of deal related expenses.

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

On December 15, 2020, the LPTA was commuted.

Portfolio 4

On February 18, 2019, we entered into a LPTA to reinsure a portfolio of Italian medical malpractice liability lines of business. Concurrently, we entered into a QS Agreement with PC Re II in relation to the LPTA whereby PC Re II funded \$16.3 million, and we funded \$7.9 million, representing the total capital required to fund the reinsurance up to the aggregate limit for claims under the terms of the LPTA and deal related expenses.

On August 11, 2020, the LPTA was amended and restated. As part of the revised LPTA terms, PC Re II funded \$3.6 million, and we funded \$1.7 million, representing the total required capital.

During 2022 we began discussions to commute this LPTA and identified an interested counterparty.

4. INVESTMENTS

The fair values of our short-term and fixed maturity investments classified as trading were as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
U.S. government and agency	\$ 16,279	\$ 13,155
Non-U.S. government.....	24,823	25,677
Corporate.....	5,962	22,780
Total investments	<u>\$ 47,064</u>	<u>\$ 61,612</u>

The contractual maturities of our investments classified as trading are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

<u>As at December 31, 2022</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>% of Total Fair Value</u>
One year or less			
.....	\$ 27,848	\$ 26,462	56.2 %
More than two years through five years	10,662	9,508	20.2 %
More than five years through ten years	13,567	11,094	23.6 %
Total investments	<u>\$ 52,077</u>	<u>\$ 47,064</u>	<u>100.0 %</u>

<u>As at December 31, 2021</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>% of Total Fair Value</u>
One year or less			
.....	\$ 43,451	\$ 39,045	63.4 %
More than one year through two years	6,676	6,021	9.8 %
More than two years through five years	19,508	16,546	26.9 %
Total investments	<u>\$ 69,635</u>	<u>\$ 61,612</u>	<u>100.0 %</u>

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

The following table sets forth the credit ratings of our investments as at December 31, 2022:

	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>% of Total Fair Value</u>	<u>AAA Rated</u>	<u>AA Rated</u>	<u>A Rated</u>
U.S. government and agency	\$ 16,345	\$ 16,279	34.6 %	\$ 16,045	\$ 234	\$ —
Non-U.S. government	29,165	24,823	52.7 %	9,518	4,888	10,417
Corporate	6,567	5,962	12.7 %	2,033	3,929	—
Total	<u>\$ 52,077</u>	<u>\$ 47,064</u>	<u>100.0 %</u>	<u>\$ 27,596</u>	<u>\$ 9,051</u>	<u>\$ 10,417</u>
% of total fair value.....				58.6 %	19.2 %	22.1 %

The following table sets forth the credit ratings of our investments as at December 31, 2021:

	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>% of Total Fair Value</u>	<u>AAA Rated</u>	<u>AA Rated</u>	<u>A Rated</u>
U.S. government and agency	\$ 13,159	\$ 13,155	21.4 %	\$ 12,916	\$ 239	\$ —
Non-U.S. government	30,415	25,677	41.7 %	12,224	6,959	6,494
Corporate	26,061	22,780	37.0 %	12,471	9,636	673
Total	<u>\$ 69,635</u>	<u>\$ 61,612</u>	<u>100.0 %</u>	<u>\$ 37,611</u>	<u>\$ 16,834</u>	<u>\$ 7,167</u>
% of total fair value.....				61.0 %	27.3 %	11.6 %

Net Investment Income

Major categories of net investment income for the years ended December 31, 2022 and 2021 is summarized as follows:

	<u>2022</u>	<u>2021</u>
Cash, cash equivalents and restricted cash and cash equivalents	\$ (1)	\$ (8)
Short-term investments	(31)	\$ (12)
Fixed maturity investments	32	\$ 65
Other investments	73	\$ 20
Funds withheld – directly managed	1,037	\$ 494
Gross investment income.....	1,171	\$ 559
Investment expenses.....	(9)	\$ (24)
Investment expenses on funds withheld - directly managed.....	(85)	\$ (122)
Net investment income	<u>\$ 1,077</u>	<u>\$ 413</u>

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NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Net Realized and Change in Net Unrealized Gains (Losses)

Components of net realized and change in net unrealized gains (losses) for the years ended December 31, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Net realized gains (losses):		
Fixed maturity investments, trading.....	\$ —	\$ 56
Short-term investments, trading.....	—	\$ —
Funds withheld - directly managed.....	(605)	\$ (335)
Total net realized gains (losses)	<u>(605)</u>	<u>\$ (279)</u>
Change in net unrealized gains (losses):		
Fixed maturity investments, trading.....	(478)	\$ (191)
Short-term investments, trading.....	—	\$ —
Total change in net unrealized gains (losses).....	<u>(478)</u>	<u>\$ (191)</u>
Net realized and change in net unrealized gains (losses)	<u>\$ (1,083)</u>	<u>\$ (470)</u>

Restricted Assets

We are required to maintain investments and cash and cash equivalents on deposit to support our reinsurance operations. The investments and cash and cash equivalents on deposit are available to settle reinsurance liabilities. We also utilize trust accounts to collateralize business with our reinsurance counterparties. The assets held in trusts as collateral are primarily cash and cash equivalents and highly rated short-term and fixed maturity securities. The carrying value of our restricted assets, including restricted cash and cash equivalents of \$0.1 million, as of December 31, 2022, was \$47.0 million. The carrying value of our restricted assets, including restricted cash and cash equivalents, as of December 31, 2021, was \$61.9 million.

ARMOUR RE LTD.

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

5. FUNDS WITHHELD

The following table provides the total funds withheld balance as at December 31, 2022 and 2021:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Funds withheld.....	\$ 8,353	\$ 9,510
Funds withheld - directly managed restricted cash and cash equivalents.....	-	35,926
Funds withheld - directly managed short-term investments.....	52,419	13,233
Funds withheld - directly managed fixed maturity investments.....	14,230	27,794
Total funds withheld	<u>\$ 75,002</u>	<u>\$ 86,463</u>

The fair values of our funds withheld - directly managed investments classified as trading were as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
U.S. government and agency.....	\$ 60,997	\$ 19,714
Non-U.S. government.....	1,136	6,756
Corporate.....	4,516	14,491
Asset-backed.....	-	66
Total funds withheld - directly managed investments.....	<u>\$ 66,649</u>	<u>\$ 41,027</u>

The contractual maturities of our funds withheld - directly managed investments classified as trading are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

<u>As at December 31, 2022</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>% of Total Fair Value</u>
One year or less			
.....	\$ 52,451	\$ 52,419	78.7 %
More than one year through two years	-	-	0.00 %
More than two years through five years	10,806	10,717	16.0 %
More than five years through ten	3,657	3,513	5.3 %
Total funds withheld - directly managed	<u>\$ 66,914</u>	<u>\$ 66,649</u>	<u>100.0 %</u>

<u>As at December 31, 2021</u>	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>% of Total Fair Value</u>
One year or less	\$ 22,309	\$ 22,400	54.6 %
More than one year through two years	13,417	13,682	33.3 %
More than two years through five years	4,782	4,879	11.9 %
Asset-backed	66	66	0.2 %
Total funds withheld - directly managed	<u>\$ 40,574</u>	<u>\$ 41,027</u>	<u>100.0 %</u>

ARMOUR RE LTD.

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

The following tables set forth the credit ratings of our funds withheld - directly managed investments as at December 31, 2022 and 2021:

December 31, 2022	Amortized Cost	Fair Value	% of Total Fair Value	AAA Rated	AA Rated	A Rated
U.S. government and agency	\$ 61,062	\$ 60,997	91.5 %	\$ 52,419	\$ 8,578	\$ —
Non-U.S. government	1,214	1,136	1.7 %	586	550	—
Corporate	4,638	4,516	6.8 %	1,157	3,359	—
Asset-backed	—	—	0.0 %	—	—	—
Total	<u>\$ 66,914</u>	<u>\$ 66,649</u>	<u>100.0 %</u>	<u>\$ 54,162</u>	<u>\$ 12,487</u>	<u>\$ —</u>
% of total fair value.....				81.3 %	18.7 %	0.0 %

December 31, 2021	Amortized Cost	Fair Value	% of Total Fair Value	AAA Rated	AA Rated	A Rated
U.S. government and agency	\$ 19,414	\$ 19,714	48.1 %	\$ 6,707	\$ 13,006	\$ —
Non-U.S. government	6,729	6,756	16.5 %	2,645	4,112	—
Corporate	14,365	14,491	35.3 %	3,181	9,581	1,729
Asset-backed	66	66	0.2 %	66	—	—
Total	<u>\$ 40,574</u>	<u>\$ 41,027</u>	<u>100.0 %</u>	<u>\$ 12,599</u>	<u>\$ 26,699</u>	<u>\$ 1,729</u>
% of total fair value.....				30.7 %	65.1 %	4.2 %

Net Investment Income on Funds Withheld - Directly Managed

Major categories of net investment income on funds withheld - directly managed for the years ended December 31, 2022 and 2021 are summarized as follows:

	2022	2021
Restricted cash and cash equivalents.....	\$ 20	\$ 4
Short-term investments.....	672	19
Fixed maturity investments.....	345	471
Gross investment income on funds withheld - directly managed.....	1,037	494
Investment expenses on funds withheld - directly managed.....	(85)	(93)
Net investment income on funds withheld - directly managed.....	<u>\$ 952</u>	<u>\$ 401</u>
Net investment income - other.....	—	—
Net investment income.....	<u>\$ 952</u>	<u>\$ 401</u>

ARMOUR RE LTD.

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Net Realized and Change in Net Unrealized Losses on Funds Withheld - Directly Managed

Components of net realized and change in net unrealized losses on funds withheld - directly managed for the year ended December 31, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Net realized losses on funds withheld - directly managed:		
Fixed maturity investments, trading.....	\$ —	\$ 15
Short-term investments, trading.....	(1)	—
Restricted cash and cash equivalents.....	—	—
Total net realized losses on funds withheld - directly managed.....	<u>(1)</u>	<u>15</u>
Change in net unrealized losses on funds withheld - directly managed:		
Fixed maturity investments, trading.....	(575)	(347)
Short-term investments, trading.....	(29)	(3)
Restricted cash and cash equivalents.....	—	—
Total change in net unrealized losses on funds withheld - directly managed.....	<u>(605)</u>	<u>(350)</u>
Net realized and change in net unrealized losses on funds withheld - directly managed.....	<u>\$ (605)</u>	<u>\$ (335)</u>

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

6. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

Fair value is defined as the price at which to sell an asset or transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. We use a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data.

The hierarchy is broken down into three levels as follows:

- Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access.
- Level 2 - Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or for which significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.
- Level 3 - Valuations based on unobservable inputs where there is little or no market activity. Unadjusted third party pricing sources or management's assumptions and internal valuation models may be used to determine the fair values.

We have categorized our funds withheld - directly managed investments that are recorded at fair value on a recurring basis among levels based on the observability of inputs as follows:

	December 31, 2022			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Investments:				
U.S. government and agency	\$ —	\$ 16,279	\$ —	\$ 16,279
Non-U.S. government	—	24,823	—	24,823
Corporate	—	5,962	—	5,962
Total	\$ —	\$ 47,064	\$ —	\$ 47,064
Funds Withheld - Directly Managed:				
U.S. government and agency	\$ —	\$ 60,997	\$ —	\$ 60,997
Non-U.S. government	—	1,136	—	1,136
Corporate	—	4,517	—	4,517
Total	\$ —	\$ 66,649	\$ —	\$ 66,649

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

	December 31, 2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Investments:				
U.S. government and agency	\$ —	\$ 13,155	\$ —	\$ 13,155
Non-U.S. government	—	25,677	—	25,677
Corporate	—	22,780	—	22,780
Total	<u>\$ —</u>	<u>\$ 61,612</u>	<u>\$ —</u>	<u>\$ 61,612</u>
Funds Withheld - Directly Managed:				
U.S. government and agency	\$ —	\$ 19,714	\$ —	\$ 19,714
Non-U.S. government	—	6,756	—	6,756
Corporate	—	14,491	—	14,491
Asset Backed Securities	—	66	—	66
Total	<u>\$ —</u>	<u>\$ 41,027</u>	<u>\$ —</u>	<u>\$ 41,027</u>

Valuation Methodologies of Financial Instruments Measured at Fair Value

Funds Withheld - Directly Managed Investments

The fair values for all securities in the funds withheld - directly managed portfolios are independently provided by the investment manager, which utilizes internationally recognized independent pricing services. We record the price provided by the investment manager and do not adjust prices obtained from the pricing service.

The independent pricing services used by the investment manager obtain actual transaction prices for securities that have quoted prices in active markets. Where we utilize single unadjusted broker-dealer quotes, they are generally provided by market makers or broker-dealers who are recognized as market participants in the markets in which they are providing the quotes. For determining the fair value of securities that are not actively traded, in general, pricing services use "matrix pricing" in which the independent pricing service uses observable market inputs including, but not limited to, reported trades, benchmark yields, broker-dealer quotes, interest rates, prepayment speeds, default rates and such other inputs as are available from market sources to determine a reasonable fair value.

The following describes the techniques generally used to determine the fair value of our funds withheld - directly managed investments by asset class.

- U.S. government and agency securities consist of securities issued by the U.S. Treasury. Non-U.S. government securities consist of bonds issued by non-U.S. governments and agencies along with supranational organizations. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades and broker-dealer quotes. These are considered to be observable market inputs and, therefore, the fair values of these securities are classified as Level 2.

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

- Corporate securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair values of these securities are determined using the spread above the risk-free yield curve, reported trades, broker-dealer quotes, benchmark yields, and industry and market indicators. These are considered observable market inputs and, therefore, the fair values of these securities are classified as Level 2. Where pricing is unavailable from pricing services, such as in periods of low trading activity or when transactions are not orderly, we obtain non-binding quotes from broker-dealers. Where significant inputs are unable to be corroborated with market observable information, we classify the securities as Level 3.
- Asset-backed securities consist primarily of investment-grade bonds backed by pools of loans with a variety of underlying collateral. Commercial mortgage-backed securities include both agency and non-agency originated securities. Where pricing is unavailable from pricing services, we obtain non-binding quotes from broker-dealers. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. The significant inputs used to determine the fair value of these securities include the spread above the risk-free yield curve, reported trades, benchmark yields, prepayment speeds and default rates. The fair values of these securities are classified as Level 2 if the significant inputs are market observable. Where significant inputs are unable to be corroborated with market observable information, we classify the securities as Level 3.

Changes in Leveling of Financial Instruments

Transfers into or out of levels are recorded at their fair values as of the end of the reporting period, consistent with the date of determination of fair value. During the year ended December 31, 2022 and December 31, 2021, there were no transfers between levels.

Disclosure of Fair Values for Financial Instruments Carried at Cost

Disclosure of fair value of amounts relating to insurance contracts is not required. Our remaining assets and liabilities were generally carried at cost or amortized cost, which due to their short-term nature approximates fair value as at December 31, 2022 and 2021. As these assets and liabilities are not actively traded, their respective fair values are classified as Level 2.

ARMOUR RE LTD.

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

7. REINSURANCE

The following table provides the total reinsurance balances recoverable as at December 31, 2022 and 2021:

Reinsurance balances recoverable	2022	2021
Outstanding losses.....	\$ 26,059	\$ 30,449
IBNR.....	12,222	15,363
ULAE.....	2,789	3,725
Total reinsurance balances recoverable	\$ 41,070	\$ 49,537

As of December 31, 2022 and 2021, we had reinsurance balances recoverable of approximately \$41.1 million and \$49.5 million, respectively.

Effects of reinsurance on premiums written and earned and losses and loss adjustment expenses

The effects of reinsurance on net premiums written and earned and losses and loss adjustment expenses for the years ended December 31, 2022 and 2021 were as follows:

Premiums written:	2022	2021
Assumed.....	\$ -	276
Ceded.....	(637)	(492)
Net premiums written.....	\$ (637)	(216)

Premiums earned:	2022	2021
Assumed.....	\$ -	280
Ceded.....	(636)	(492)
Net premiums earned	\$ (636)	(212)

Losses and loss adjustment expenses:	2022	2021
Assumed.....	\$ 3,959	\$ 35,327
Ceded	16	(14,322)
Net losses and loss adjustment expenses	\$ 3,975	\$ 21,005

Credit Risk

We remain liable to the extent that retrocessionaires do not meet their obligations under these agreements, and therefore, we evaluate and monitor concentration of credit risk among our reinsurers. Provisions are made for amounts considered potentially uncollectible.

As of December 31, 2022 and 2021, all of the reinsurance balances recoverable of \$41.1 million (2021: \$49.5 million) is due from PC RE II, a non-rated reinsurer, which has provided security in the form of funds withheld.

ARMOUR RE LTD.

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

8. RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

The liability for losses and LAE, also referred to as loss reserves, represents our gross estimates for unpaid reported losses and losses that have been incurred but not reported ("IBNR"). LAE reserves include allocated loss adjustment expenses ("ALAE"), and unallocated loss adjustment expenses ("ULAE"). ALAE are linked to the settlement of an individual claim or loss, whereas ULAE are based on our estimates of future costs to administer the claims. IBNR represents reserves for losses and LAE that have been incurred but not yet reported to us. This includes amounts for unreported claims, development on known claims and reopened claims.

The following table summarizes the liability for losses and LAE as at December 31, 2022 and 2021:

	2022	2021
Outstanding losses.....	\$ 52,854	\$ 69,435
IBNR.....	56,490	59,520
ULAE.....	4,825	6,958
Total	<u>\$ 114,169</u>	<u>\$ 135,913</u>

The following table provides a reconciliation of the beginning and ending liability for losses and LAE for the years ended December 31, 2022 and 2021:

	2022	2021
Balance as at January 1,	\$ 135,913	\$ 133,018
Less: reinsurance reserves recoverable	49,537	47,211
Net balance as at January 1,	86,376	85,807
Net incurred losses and LAE:		
Prior periods		
.....	3,975	21,005
Total net incurred losses and LAE	3,975	21,005
Net paid losses:		
Prior periods	(16,252)	(19,433)
Total net paid losses	(16,252)	(19,433)
Effect of exchange rate movement	(999)	(1,003)
Net balance as at December 31,	73,100	86,376
Plus: reinsurance reserves recoverable	41,069	49,537
Balance as at December 31,	<u>\$ 114,169</u>	<u>\$ 135,913</u>

Short Duration Contract Disclosures

The Company has presented the following development tables using exchange rates as at December 31, 2022. The reserve for losses and loss expenses related to the completion of the trades have been incorporated on a prospective basis. This treatment was adopted primarily as a result of the data necessary to produce the loss development tables not being migrated over on acquisition of the portfolios as it was not requested or received and as a result does not exist within Armour Re's data systems.

Disclosures of Incurred and Paid Loss Development, IBNR, Claims Counts and Payout Percentages

ARMOUR RE LTD.

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

The loss development tables disclosed below set forth our historic incurred and paid loss development by acquisition year through December 31, 2022, as well as the cumulative number of reported claims, IBNR balances, and other supplementary information.

For each acquisition year for which loss development tables have been provided below, the disclosure approach and format adopted reflects the following:

- The incurred loss development tables include both reported case reserves and IBNR liabilities, as well as cumulative paid losses;
- Both the incurred and cumulative paid loss development tables include allocated LAE (i.e. claims handling costs allocated to specific individual claims) but exclude unallocated LAE (i.e. the costs associated with internal claims staff and third party administrators);
- The amounts relating to the increase (reduction) in provisions for unallocated LAE are excluded from the loss development tables;
- The amounts included within the loss development tables as well as the historical average annual percentage payout ratios as of December 31, 2022, are presented as supplementary information and are therefore unaudited; and
- The IBNR reserves included within each incurred loss development table by acquisition year, reflect the net IBNR recorded as of December 31, 2022, including expected development on reported losses.

Reported claim counts, on a cumulative basis, are provided as supplemental information to each incurred loss development table by acquisition year. The claims frequency includes open and closed claims by acquisition year at the claimant level and exclude claims that closed before the acquisition. Reported claims that are closed without a payment are included within our cumulative number of reported claims because we typically incur claim adjustment expenses on them prior to their closure.

The following tables present the incurred and paid claims development for the acquired portfolios on a cumulative basis as of December 31, 2022:

The reconciliation of the net incurred and paid claims development tables to the reserve for losses and loss adjustment expenses in the balance sheet is as follows:

	December 31, 2022
Reserve for losses and ALAE, net of reinsurance	\$ 71,064
Reinsurance balances recoverable on loss reserves.....	38,280
Unallocated loss adjustment expenses.....	4,825
Total reserve for losses and loss adjustment expenses	\$ 114,169

ARMOUR RE LTD.

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

Cumulative Incurred Claims and ALAE, Net of Reinsurance as at Year Ended December 31, (\$000's)							December 31, 2022	
Acquisition Year	2017	2018	2019	2020	2021	2022	Total IBNR	Cumulative Number of Reported Claims
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)		
2017	\$ 199,178	\$ 143,477	\$ 138,859	\$ 170,465	\$ 184,296	\$ 191,594	\$ 38,548	24,271
2018	-	13,415	15,140	16,236	16,185	15,739	(202)	27,505
2019	-	-	116,086	115,541	121,513	116,511	5,923	35,080
Total	199,178	156,892	270,085	302,242	321,994	323,844	44,269	86,856

Cumulative Paid Claims and ALAE, Net of Reinsurance as at Year Ended December 31, (\$000's)						
Acquisition Year	2017	2018	2019	2020	2021	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
2017	\$ -	\$ 52,312	\$ 90,978	\$ 113,663	\$ 125,336	\$ 134,784
2018	-	4,925	9,478	12,457	14,209	14,808
2019	-	-	28,008	94,987	99,307	103,188
Total	-	57,237	128,464	221,107	238,852	252,780

Total Reserves For Losses and ALAE, Net of Reinsurance (\$000's)						
	\$ 199,178	\$ 99,655	\$ 141,621	\$ 81,135	\$ 83,142	\$ 71,064

Claims duration

The following table is presented as supplementary information and presents the Company's unaudited historical average annual percentage payout of loss and loss adjustment expenses incurred, net by age, as of December 31, 2022:

Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance									
Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
10.2 %	37.8%	14.0%	8.7%	5.9%	4.9%	N/A	N/A	N/A	N/A

9. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL

As at December 31, 2022 and 2021, the authorized share capital of the Company was \$10.0 million divided into 10,000,000 shares of par value of \$1.00 each. As at December 31, 2022 and 2021, the issued and fully paid share capital of the Company was 120,000 ordinary shares of par value \$1.00 per share.

As at December 31, 2022, the additional paid-in capital was \$127.8 million (2021: \$127.8 million) and relates to contributions less distributions from the Company's parent for the purposes of funding significant business transactions and operational expenses.

10. TAXATION

The Company is incorporated under the laws of Bermuda and under Bermuda law is not required to pay taxes in Bermuda based upon income or capital gains. The Company, under the Exempted Undertakings Tax Protection Act of 1966, is protected against any legislation that may be enacted in Bermuda which would impose any tax on profits, income, or gain until March 31, 2035.

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

11. RELATED PARTY TRANSACTIONS

PC Re II

See Note 1 - "Description of Business" and Note 3 - "Significant Business" for discussion related to the Co-Investment Framework Agreement and transactions between PC Re II and Armour Re, a wholly-owned subsidiary of Armour Group Ltd. ("Armour Group").

During the years ended December 31, 2022 and 2021, PC Re II ceded \$(0.6) million of net premiums earned (2021: \$(0.2) million), \$(1.0) million of net investment income (2021: \$0.4 million), \$(0.6) million of net realized and change in net unrealized gains (losses) (2021: \$0.3 million), \$6.9 million of net losses and LAE (2021: \$13.3 million), \$(0.4) million of other reinsurance expenses (2021: \$0.4 million) and \$0.1 million of general and administrative expenses (2021: \$0.2 million) to Armour Re.

During the years ended December 31, 2022 and 2021, Armour Re ceded \$0.1 million of net investment income (2021: \$(0.1) million), \$(0.9) million of net realized and change in net unrealized gains (2021: \$0.1 million), \$0.0 million of net losses and LAE (2021: \$14.4 million) and \$0.0 million of general and administrative expenses (2020: \$0.3 million) to PC Re II.

Our balance sheet as at December 31, 2022, includes the following balances related to transactions with PC Re II: funds withheld of \$73.3 million (2021: \$83.0), reinsurance balances recoverable of \$41.1 million (2021: \$49.5 million), reinsurance balances receivable of \$1.5 million (2021: \$2.5 million), reserves for losses and LAE of \$58.4 million (2021: \$62.4 million), net due to cedants of \$0.1 million (2021: \$1.5 million) and funds withheld payable of \$32.8 million (2021: \$44.0 million).

Armour Group Ltd.

At December 31, 2022 and 2021, the Company had a balance receivable from its parent of \$13.0 million (2021: \$13 million) which was payable on demand and was non-interest bearing.

Armour Risk Management Inc., Armour Risk Management Limited and Armour Risk Services Bermuda (collectively "Armour Risk"), wholly-owned subsidiaries of AGL, entered into administrative services agreements with PC Re II and Armour Re agreeing to act as claims administrator for Portfolios 1 to 4.

In February 2021, Armour Group entered into a transaction with Premia Holdings for the sale of Armour Re and the novation of the administrative services agreements to Premia from Armour Risk, for which there were no significant updates in 2022.

ARMOUR RE LTD.

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

12. DIVIDEND RESTRICTIONS AND STATUTORY FINANCIAL INFORMATION

The Company is registered under the Insurance Act 1978 of Bermuda and related regulations, as amended (the "Insurance Act"). The Insurance Act imposes certain solvency and liquidity standards and auditing and reporting requirements and grants the Bermuda Monetary Authority ("BMA") powers to supervise, investigate, require information and the production of documents and intervene in the affairs of insurance companies.

The Insurance Act requires that we maintain certain solvency and liquidity standards. The minimum liquidity ratio requires that the value of relevant assets not be less than 75% of the amount of relevant liabilities. The minimum solvency margin ("MSM"), which varies depending on the class of the insurer, is determined as a percentage of either net reserves for losses and LAE or premiums or pursuant to a risk-based capital measure. We are required to maintain a minimum available statutory economic capital and surplus (Enhanced Capital Requirement or "ECR") at least equal to the greater of a MSM or the Bermuda Solvency Capital Requirement ("BSCR"). The BSCR is calculated based on a standardized risk-based capital model.

The Company prepares its statutory financial statements in conformity with statutory accounting practices prescribed or permitted by the BMA. The statutory financial statements may vary materially from statements prepared in accordance with U.S. GAAP.

Statutory capital and surplus as at December 31, 2022 and 2021 and statutory net income for the year ended December 31, 2022 and 2021 were as follows:

	Available Statutory Economic Capital and Surplus				Statutory Net Income (Loss)	
	Required		Actual		Actual	
	December 31,		December 31,		Year Ended December 31,	
	2022	2021	2022	2021	2022	2021
Armour Re						
.....	\$ 24,775	\$ 30,540	\$ 33,673	\$ 28,615	\$ (5,202)	\$ (21,950)

We would be prohibited from declaring or paying any dividends if we were in breach of our minimum solvency margin (which is a function of outstanding losses) or liquidity ratio (which is a function of relevant assets) or if the declaration or payment of such dividends would cause it to fail to meet such margin or ratio. In addition, we would be prohibited, without the prior approval of the BMA, from reducing by 15% or more our total statutory capital as set out in its previous year's statutory financial statements.

As at December 31, 2022, the Company exceeded its capital and liquidity requirements. As at December 31, 2021, the Company's actual available statutory economic capital and surplus was below the ECR.

13. COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk

We believe that there are no significant concentrations of credit risk associated with our portfolio of cash and cash equivalents.

NOTES TO THE FINANCIAL STATEMENTS — (Continued)

We are also subject to credit risk in relation to funds withheld. Under funds withheld arrangements, the reinsured company has retained funds that would otherwise have been remitted to us. The funds may be placed into trust or subject to other security arrangements. The funds withheld balance is credited with investment income and losses payable are deducted. The investment returns of funds held are recognized in net investment income. Funds withheld upon which we receive the underlying portfolio economics are disclosed in the notes to the financial statements as funds withheld - directly managed. We are subject to credit risk if the reinsured company is unable to honor the value of the funds withheld balances, such as in the event of insolvency. However, we generally have the contractual ability to offset any shortfall in the payment of the funds withheld balances with amounts owed by us to the reinsured for losses payable and other amounts contractually due. We routinely monitor the creditworthiness of the reinsured company with whom we have funds withheld arrangements. At December 31, 2022, we had a significant concentration of \$75.0 million (2021: \$86.5 million) in funds withheld from PC Re II as described in Note 11 - "Related Party Transactions".

Legal Proceedings

We are, from time to time, involved in various legal proceedings in the ordinary course of business, including litigation and arbitration regarding claims. Estimated losses relating to claims arising in the ordinary course of business, including the anticipated outcome of any pending arbitration or litigation are included in the liability for losses and LAE in our balance sheets. We do not believe that the resolution of any currently pending legal proceedings, either individually or taken as a whole, will have a material effect on our business, results of operations or financial condition. We anticipate that, similar to the rest of the reinsurance industry, we will continue to be subject to litigation and arbitration proceedings in the ordinary course of business.

14. SUBSEQUENT EVENTS

The board of directors of the Company has performed an evaluation of subsequent events through June 30th, 2023, the date that the financial statements were available to be issued. No subsequent events requiring adjustments or disclosure occurred.